

Message Text

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TO AMEMBASSY BONN PRIORITY
AMEMBASSY BUENOS AIRES PRIORITY
AMEMBASSY VIENNA PRIORITY
INFO AMEMBASSY OTTAWA PRIORITY

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LIMDIS; USIAEA

E.O. 11652: GDS

TAGS: PARM, TECH, MNUC, AR, GW

SUBJECT: US SALE OF ZIRCALOY TO FRG FOR USE IN ARGENTINA

REFS: (A) STATE 50943; (B) BONN 9764; (C) STATE 108074;
(D) BONN 3888

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1. AS ACTION ADDRESSEES WILL RECALL (REF A) THE US HAS A REQUEST FROM FRG FUEL FABRICATOR RBU FOR LARGE QUANTITY OF ZIRCALOY (OF WHICH US IS WORLD'S PRINCIPAL SUPPLIER) FOR USE IN FABRICATING FUEL FOR GERMAN-SUPPLIED ARGENTINE ATUCHA REACTOR. DESPITE SIGNIFICANT US SUPPLY OF HEAVY WATER TO THE ATUCHA PROJECT, THE US DOES NOT HAVE REPROCESSING VETO OVER ATUCHA FUEL, BUT FRG DOES. WE, THEREFORE,

REQUESTED THAT FRG AGREE TO CONSULT WITH US BEFORE EXERCISING ITS CONSENT RIGHT OVER REPROCESSING (REFS A AND C). ALTHOUGH WE STRESSED WE WERE NOT SEEKING A VETO RIGHT, GERMANS DECLINED (REFS B AND D). USG WAS DISAPPOINTED THAT FRG TOOK THIS POSITION SINCE WE BELIEVED OUR PROPOSED CONSULTATIONS WOULD BE FULLY IN KEEPING WITH THE SPIRIT IF NOT THE LETTER OF THE SUPPLIERS' GUIDE-LINES. NEVERTHELESS, WE PROPOSE TO PERMIT SALE OF ZIRCALOY IF CERTAIN ADDITIONAL ASSURANCES CAN BE OBTAINED FROM THE ARGENTINES.

2. FOR EMBASSY BUENOS AIRES: WITHOUT REFERRING TO BACKGROUND NOTED ABOVE, YOU SHOULD APPROACH APPROPRIATE CNEA AND/OR FONMIN OFFICIALS, DRAW ON FOLLOWING POINTS:

(A) US IS PLEASED AT DECISION OF ARGENTINE GOVERNMENT TO RATIFY TLAZOLCO AND WE HOPE THAT THE INSTRUMENT OF RATIFICATION WILL BE DEPOSITED IN MEXICO CITY IN THE NEAR FUTURE. WE ARE SIMILARLY PLEASED AT RECENT ANNOUNCEMENT OF ARGENTINE WILLINGNESS TO ENTER INTO DISCUSSIONS WITH IAEA ON FULL-SCOPE SAFEGUARDS AGREEMENT.

(B) AS SPELLED OUT IN JOINT COMMUNIQUE AND DISCUSSION IN NOVEMBER 1977, THE COMPLETION OF THESE STEPS WILL HAVE A POSITIVE IMPACT ON OUR NUCLEAR RELATIONSHIP. US WILL BE PLEASED TO TAKE ACTIVE ROLE IN SUPPORTING ARGENTINA AS A CONFIDENTIAL

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NUCLEAR SUPPLIER, FOR EXAMPLE IN RESEARCH REACTOR AREA. THOUGH OUR NEGOTIATING SCHEDULE IS TIGHT AT THE MOMENT WE ARE PREPARED TO BEGIN CONSULTATIONS ON NEW AGREEMENT FOR COOPERATION IN THE FALL. AS WE DISCUSSED IN NOVEMBER 1977 SUCCESSFUL RENEGOTIATION WILL MAKE POSSIBLE ADDITIONAL COOPERATION, INCLUDING AUTHORIZATION FOR THIRD-PARTY FABRICATION OF RESEARCH REACTOR FUEL AND -- IF DESIRED AND AVAILABLE -- THE SUPPLY OF HEAVY WATER.

(C) IN THE INTERIM, WE UNDERSTAND THAT GERMAN FIRM RBU HAS REQUESTED A US LICENSE FOR THE EXPORT OF A LARGE QUANTITY OF ZIRCALOY FOR CLADDING OF ATUCHA FUEL. AS A RESULT OF CHANGED US EXPORT LAWS IN THE NUCLEAR NON-PROLIFERATION ACT OF 1978, WE NEED TO CONFIRM CERTAIN UNDERSTANDINGS BEFORE WE CAN AUTHORIZE THIS EXPORT. THESE UNDERSTANDINGS WOULD ALSO BE NEEDED IN AN AMENDED AGREEMENT FOR COOPERATION. IN PARTICULAR, WE WOULD NEED

ARGENTINA'S CONFIRMATION THAT: (1) THE ZIRCALOY IN QUESTION WOULD NOT BE RE-EXPORTED WITHOUT THE AGREEMENT OF THE US; AND (2) NO US MATERIAL OR MATERIAL DERIVED FROM ITS USE WILL BE USED FOR ANY NUCLEAR EXPLOSIVE

DEVICE, FOR RESEARCH OR DEVELOPMENT ON ANY NUCLEAR EXPLOSIVE DEVICE, OR FOR ANY OTHER MILITARY PURPOSE.

(D) US SUGGESTS THESE UNDERSTANDINGS BE INCORPORATED IN AN EXCHANGE OF NOTES. WE ARE PREPARED TO SUPPLY DRAFT TEXT IF ARGENTINES WISH.

3. IF ASKED ABOUT SO-CALLED MODEL AGREEMENT, YOU SHOULD INDICATE THAT MODEL MAY NOT TAKE INTO ACCOUNT ARGENTINE REQUIREMENTS. FOR EXAMPLE, MODEL DOES NOT PERMIT THIRD-PARTY FUEL FABRICATION, THOUGH WE UNDERSTAND THAT IS IMPORTANT FEATURE DESIRED BY ARGENTINES,

AND ONE WE CAN SUPPORT IF THERE HAS BEEN PROGRESS ON OTHER
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ELEMENTS OF THE "PACKAGE." IF, HOWEVER, ARGENTINES WOULD LIKE TO SEE MODEL FOR INFORMATION PURPOSES, WE WOULD HAVE NO OBJECTION AS LONG AS IT IS UNDERSTOOD THAT IT IS NOT FULLY APPROPRIATE TO ARGENTINE CASE.

4. BEGIN FYI: CONCERNED WASHINGTON AGENCIES ARE INTERESTED IN CONVEYING TO ARGENTINES OUR SATISFACTION AT STEPS ANNOUNCED BY ARGENTINA, BUT ARE RELUCTANT TO TAKE CONCRETE STEPS UNTIL ARGENTINES HAVE CONVERTED WORDS INTO ACTIONS. WE ARE PREPARED, HOWEVER, TO BEGIN DISCUSSIONS ON NEW AGREEMENTS FOR COOPERATION AT A MUTUALLY CONVENIENT TIME THIS FALL. IN INTERIM, THE EXCHANGE OF NOTES SHOULD PERMIT CONTINUATION OF MINOR ASSISTANCE, AS WELL AS RESOLVING THIS PARTICULAR ZIRCALOY CASE. END FYI.

5. FOR EMBASSY BONN: YOU SHOULD TAKE EARLY OPPORTUNITY TO INFORM BOTH BMFT AND FOROFF THAT THE USG HAS DECIDED TO PROVIDE THE ZIRCALOY REQUESTED IN REF (A) PROVIDED THAT THE GOA AGREES TO THE CONDITIONS STATED IN PARA 2(C). WE HOPE THE US AND FRG WILL BE ABLE TO KEEP IN CLOSE CONTACT ON THIS AND ALL OTHER MATTERS OF NON-PROLIFERATION INTEREST.

6. FOR VIENNA: WE WOULD APPRECIATE ANY ADDITIONAL INFORMATION MISSION CAN DEVELOP ON STATUS OF ARGENTINE-IAEA CONSULTATIONS ON POSSIBLE FULL-SCOPE SAFEGUARDS AGREEMENT. VANCE

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